

Confidential Briefing

Carbon Reduction Commitment

Neil Jenkins

The UK Carbon Reduction Commitment (CRC) Scheme

The Carbon Reduction Commitment (CRC) is a new UK mandatory emissions trading scheme that aims to improve energy efficiency and reduce levels of CO₂ emitted - part of UK policies to reduce greenhouse gases by 80% by 2050 (compared to a 1990 baseline). It effects some 5,000 medium to large UK organisations, and aims to capture all their energy sources that are not part of the EU-ETS (EU Emissions Trading Scheme) and/or CCAs (Climate Change Agreements).

Royal Dutch Shell plc (as the highest Shell parent organization) will be required to participate in the CRC, through monitoring CO₂ emissions across all UK businesses, reporting these CO₂ emissions and purchasing allowances for each tonne of CO₂ emitted.

To incentivise participants, the scheme has introduced a 'performance league table' which will compare how each participant has reduced its emissions. The league table also provides the basis for 'recycling' revenues from the purchase of allowances back to participants – the higher in the league table, the greater amounts of revenue that participants will receive back. As the league table will be made public and be very visible, Shell will be in the unusual position where CRC emissions (comprising only 2-3% of its UK emissions) will likely have greater reputational impacts than the remaining emissions from installations.

CRC starts with an introductory phase running for 3 years from April 2010 (though the qualification period is electricity use over the 2008 calendar year). During this phase, CO₂ allowances are sold at a fixed price of 12 pounds per tonne CO₂. Shell's CO₂ emissions under CRC amount to some 163,000 tonnes CO₂ – arising from a total annual energy utility bill of some 45m pounds. The first payment (a double payment) under the scheme will cost some 4.4m pounds in April 2011.

A basic rule under CRC is that Shell is responsible for CRC emissions where Shell holds the contract with the electricity supplier for that supply (or if purchased through a third party agent who procures energy services on Shell's behalf and pays the bills). Shell will also be responsible under CRC for joint ventures where we are operator. As a CRC participant, Shell will have to monitor and report on all CO₂ sources excluding transport emissions. For sites such as Fife, St Fergus, Bacton, Stanlow Refinery (which are part of EU-ETS and/or CCA) then electricity imported into these sites will be covered by the CRC scheme. Further information is available from:

CRC Guide: <http://www.defra.gov.uk/Environment/climatechange/uk/business/crc/comply.htm>

CRC Reporting to be Delivered by Energy Bureau Service

Shell will be using its new 'Energy Bureau Service' as the basis of monitoring and reporting energy and carbon for the CRC. The service collects data on utilities/ energy sources and provides reporting and analysis of this data, including CO2 reporting, through a web portal. This service is specifically geared to collating information on utilities, through meters and bills. This service is third party hosted by Entech Utility Service Bureau Ltd who provide a global service for Shell for all non-installations (eg offices, depots, research centres, conference/ accommodation centres, retail sites (UK only) etc).

For Shell in the UK, then most of the electricity is procured centrally by Shell Energy Europe based on smart AMR meters, and this information is now available on the system. Smart meters are also being developed by Shell Gas Direct for gas meters (a call off contract is presently being negotiated to allow sites to upgrade). Other energy sources will need to be added to the system to meet CRC requirements including fuel oils (for non transport use), steam and renewable energy sources.

The bureau service provides energy/ CO2 reporting globally for:

- international CO2 reporting such as the Carbon Disclosure Project
- for national reporting schemes such as the UK CRC
- business level reporting and KPIs
- tax reporting (such as CCL – Climate Change Levy - in UK)
- site energy efficiency management and assessments.

If you want access to the energy bureau system please complete the 'user request form' on the homepage of the energy bureau portal: http://www.entech.us/system/SEB_login.asp There are also some 1-hour training courses available.

For further information please contact:

Neil Jenkins, CRC Project Manager, Real Estate, Shell Centre, London SE1 7NA

Tel: +44 (0) 2079347678 Mob: +44 (0) 7970602763

